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Siamese Twins--
Profits *and* Poverty

Profits and Poverty Series

Number Two

EDUCATION COMMITTEE
SOCIALIST PARTY
549 Randolph Street
Chicago, Illinois

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FIVE CENTS

Suggestions for the Use of This Pamphlet

This pamphlet is designed for the use of those groups which want educational work but have no time for outside reading or preparation.

Each member of the class should have a copy of the pamphlet and should follow closely each section being discussed. The paragraphs may be read aloud, slowly and clearly, one at a time, either by the leader, by a member of the group who is a good reader, or by each member of the class in turn.

If anything is not clear, the question should be raised at the time and discussed. If the members want to bring in illustrations of the points covered from their own experience, this will provide interesting and valuable discussion. If not, or in addition, the questions at the end of the pamphlet form a useful basis for discussion.

This pamphlet is planned for study in three lessons, Sections I and II forming the first, Section III the second, and Section IV the third. It is, however, possible to go faster or slower, depending on the amount of time the group wants to spend on it at each meeting.

The leader should read the pamphlet through carefully once or twice, study the questions, and note the answers to each wherever they are given in the text. He should also note down the points to be brought out in discussion, and should look up the information needed on the community—a list of factories closed or on part time, the occupations of members of the class, the leading business men in the community, etc., etc.

General suggestions for conducting a study class are as follows:

Have one leader selected for all sessions; do not rotate.

Have a small committee whose job it is to make suggestions about the conduct of the class and to make it a success.

Begin and end on time.

If your study class is part of a business meeting, set a definite time for it and stick to it, regardless of business to be done.

Do not let the discussion wander too far from the point.

Do not let a few people talk all the time. Call on those who are bashful about speaking up for themselves.

Permit free expression of opinions, but ask for facts to back them up with.

Use a blackboard for lists, etc., if you can get one.

Encourage regular attendance.

Remember that humor and informality make a class more enjoyable.

Suggest outside reading for those interested.

Summarize at the end of each meeting.

The **Committee on Education and Research** of the Socialist Party will be glad to give advice and help to any local study group. Address **549 Randolph St., Chicago, Ill.**

I. What Causes Our Troubles?

What is the matter with our country anyhow? With our great natural resources, energetic people, and tremendous industrial plant, why are millions unemployed and existing in fear and want? What can we do about it?

This pamphlet is the second of a series published to answer these highly important questions. The first pamphlet, "Why Aren't We All Rich?" showed that in America, supposed to be a land of freedom and opportunity, some people are very rich, while most of us must work hard for a living or be dependent on charity. A small number of business men, or capitalists, have been getting more and more companies under their control until today the lives of most Americans depend upon their decisions. These capitalists run trade and industry, not to serve all the people of this country but for their own selfish interests, and are able to collect a huge rake-off in the forms of profits, rent and interest. They often find it profitable to shut down factories and let crops rot, and their power therefore cheats the great majority of us of the comfort that is possible today.

This pamphlet will explain how profits cause poverty. But first let us be sure we realize how many of our ills are caused by this underlying fact that industry and trade are run for private profit.

Our Daily Grievances

The desire to make profits results in a strong effort by the owners of industry to keep down costs of production. They attempt to get as much work as possible for each dollar paid in wages, through long hours, the speed-up, the stretch-out, and cutting the wage scale.

Another way in which employers cut costs is by firing the higher paid workers and taking on people who will work for less. Women and children are used as cheap labor. So are Mexicans and Negroes. Industries move from cities where labor costs are higher to small towns where cheap native labor is plentiful.

Wage bills are also kept down by introducing labor-saving methods. These cost money, but less than the workers who are displaced. Labor saving methods are of course good in themselves. The more the burden of toil can be shifted to machines, the better! But under the present economic system, labor-saving inventions mean unemployment instead of shorter hours.

Tens of thousands of workers are killed each year in industry. Millions more are injured or have their health undermined. Experts agree that practically all industrial accidents can be prevented. Occupational diseases can likewise be stopped. But the unnecessary toll of lives continues. Why? Because employers aim to make money, not to provide healthful employment. Safe working conditions are more expensive, when dollars, not human lives, are the standard of measurement.

The Farmers' Troubles

The farmer, like the wage earner, finds that many of his troubles are caused by the fact that industry and trade are run for profit.

Marketing Evils

The dealers in farm products pay low prices in order to increase their profits. Dishonesty in grading or weighing are not uncommon. Speculators, eager for a good rake-off, gamble at the farmers' expense. Brokers get good commissions even when farmers are losing money.

When farmers seek to market their products co-operatively, private dealers, fearing to lose their privileged position for collecting a rake-off, try to keep the co-operatives from succeeding. Even when co-operatives do succeed and become powerful, farmers do not receive as much as they should under a fair system. Even co-operatives cannot yield good prices when wage-earners are too poor to buy all they need. The capitalists' rake-off, which keeps the city workers poor, thus makes the farmers poor, too.

When the Farmer Buys

The farmer gets little for what he sells, but he has to pay plenty for what he buys. High tariffs secured by manufacturers mean high prices for farm machinery and other goods.

Railroad companies want high freight rates to yield a rake-off on watered stocks. The high freight rates often take all the return the farmer would have received. Electric power companies also charge high rates in order to pay good returns to bond and stock holders. As a result many backs and arms ache from work that could be done by electricity.

Taxes

The same companies that profit at the farmers' expense try to escape fair taxation. The railroads, the public utilities, all the big companies, fight laws that would shift onto them the burden of taxation. The capitalists naturally do not want their profits taken away by income taxes. Far better, from their point of view, is a sales tax which falls most heavily on the poor.

Loans

Farmers have always been in great need of credit, and they have been forced to pay extremely high rates of interest. When they have not been able to pay, they have lost their equipment and their homes. Bankers and other lenders who have collected a nice rake-off in this way have tried to keep the government from undercutting their business. The banking interests also fight attempts to secure inflation since that would cut the value of the farmers' debts to them.

The Capitalist System

Even this brief account should have shown that the underlying cause of our troubles is the way in which our great industries, our banks and our trade are controlled. This present set-up is known as the capitalist system—even though there is none too much system to it. Its main features are:

1. Private ownership and control of our great factories, mines and companies of all kinds.

2. Running of banking, industry, and trade for private profit.

3. Great difference between the lives of the wealthy powerful few, and of the great majority who depend on uncertain jobs or markets for a bare living.

4. Increasing concentration of control, that is, more and more power over industry and trade going into the hands of a few powerful capitalists.

Later discussion will describe this set-up more fully, but remember that this is what is meant by the terms "capitalist system" and "capitalism."

Now let us dig deeper into the puzzle of poverty in the midst of plenty.

II. Profits Limit Production

Our Resources Are Wasted

Poverty is not necessary today. It continues because we Americans are not running our factories, consuming our farm products and using our other wonderful resources as fully as possible. Our machines work only part time, the channels of trade are clogged.

If we all had more money, we would speedily spend it on food, clothing and other things. Then there would be no difficulty in selling all that our farms and industries can produce. But today, since the people cannot buy much, production is limited.

Even in the so-called prosperous years of the 1920's, this country was not producing nearly as much wealth as possible. Many industries, such as coal, were turning out only one-half as much as possible. Prices of farm products were often less than the cost of marketing, and therefore food rotted in the fields. At the same time millions of families of farmers and wage earners alike were living far below what the United States government called a decent standard of living. Let us not, now that times are worse, think that 1926 or 1928 were years of well-being for everybody! Profits were causing poverty in those days too, and were leading up to the terrible depression that followed.

The Rake-Off Cuts Buying Power

The first pamphlet in this series explained that the income of the owning class, whether in the form of profits, interest, or rent, is a rake-off taken at the expense of the wage-earners,

the farmers, and all those who work for a living. The less, for example, that a company pays us, the greater the owners' rake-off. But even this is not the worst thing about the capitalist system. **The rake-off of the owning class keeps us from being able to buy back what we have produced.** And because we cannot buy back, goods cannot be sold at a profit. Therefore factories are shut down and millions are thrown out of work, thus cutting our buying power still more and making the situation worse.

Lack of buying power in the hands of the mass of the people is a natural part of the capitalist system, and will continue as long as the capitalist system continues. This is the most important fact in this whole pamphlet.

An Illustration

Take, for example, any factory. If the workers and farmers who supply the raw materials and labor are to be able to buy all the goods the factory makes, they must be paid an amount equal to the total selling price of those goods. But they are not paid that much since the capitalist expects his rake-off. If he paid the farmers and workers an amount equal to the price of the finished products, there would be no rake-off left for him. The bigger the profit the capitalist can take, the more the buying power of the farmers and workers lags behind. This is true of all factories, all railroads, all business enterprises.

The same thing happens with the farmer who sells to a merchant. The merchants, packers, and so on get their rake-off by paying the farmers less than they are going to charge the public. The farmers' buying power is cut by the amount of the capitalists' rake-off. The farmers cannot buy all that the workers can make. The wage-earners cannot buy all the farmers' crops.

Too Much Investment

"But," you may say, "the capitalists have the buying power which they take away from the wage-earners and farmers. If the capitalists spend this money, then is there not enough buying power and a sufficient market for everything our farms and industries can produce?" The fact is that the capitalists do not buy the consumption goods which the farmers and workers have produced. A millionaire does not spend all his income on clothes or food or even butlers. He

invests a large part of it, and this money that he invests is thus removed from the purchase of consumption goods. It does not help to buy what the farmers and workers have produced. Instead it is largely used to build more factories which will turn out still more goods even though the existing factories cannot work profitably full-time.

It is of course proper that some income go to the persons who do the work of business management. It is also necessary that some income be re-invested in machines and other capital equipment. But under the capitalist system investment is unbalanced because Big Ownership receives too large a rake-off and too little money goes to the mass of the people.

Now we see how significant is the rake-off taken by the wealthy industrialists, merchants, bankers and land-owners. Not only does the rake-off come out of the pockets of the wage-earners, the farmers and others who work. The rake-off is the **cause** of the paralysis that dooms so many of us to poverty and insecurity.

What Actually Happened

Statistics on income prove this theory. In the years of the boom leading up to 1929, the rake-off of the capitalists was getting larger and larger. Thanks to new inventions, the amount produced per worker and farmer rapidly increased. But the capitalists got most of the benefit. Profits, rents and interest went up much faster than wages or farm income. The buying power of the masses thus lagged far behind. This could not go on, and the depression came.

Even when the depression was well under way in 1930, when wages and farm prices had been slashed and unemployment was very serious, the rake-off taken by the owning class, as measured by interest and dividend payments of American corporations, was eight billion dollars. This was actually greater than the rake-off in 1929. And in 1931 when the masses were suffering still more, interest and dividend payments were still over eight billion dollars.

The capitalists were doing all they could during these years to preserve their own income and investment by cutting wages and farm prices. For to the capitalist wages and farm prices are a cost of production. He does not consider them as the means by which wage earners and farmers can buy food and clothing for themselves.

False Values

This practice of looking at wages and farm prices as costs of production shows the topsy-turvy set of values on which the capitalist system is based. From any common sense point of view the reason for producing cotton or shoes or automobiles is to increase the well-being of the American people. This demands that the mass of the people, as well as the few, be supplied with the comforts of life. In other words, the reason for making things is to distribute them for use. Yet under the present system of production and marketing for private profit, the capitalists keep down the share received by the masses because this share is reckoned as a cost of production!

Summing Up

Let us now review what our study thus far has shown us.

1. The resources, markets, factories and other means of production and distribution are largely in the hands of a small group of wealthy men.

2. Industry, banking and trade are directed toward making profits, not toward increasing human happiness.

3. Profits depend on keeping down costs of production, including the share paid to farmers and workers.

4. The great mass of the people are dependent on the capitalists for jobs or for a market for farm products, and, except where they are organized, they must within certain limits accept what the capitalists decide to pay.

5. The capitalists, because of their ownership and control of the means of production, banks, markets and jobs, are able to get a large rake-off in the form of profits, rent and interest.

6. Because the capitalists take this huge rake-off, the farmers and workers are not able to buy back what they produce.

7. The result is that the capitalists do not permit the production of as much food, clothing, etc., as possible, and the farmers cannot sell all they can produce, although people

want their products. Even in good years far less wealth than possible is produced, and about every eight years a bad period of depression occurs.

8. Because people lack buying power, there is keen competition among sellers for the little money that people can spend. Rival firms compete fiercely. This competition results in great pressure to reduce costs of production, including farm prices and wages.

It's the System

An additional point to be understood is that capitalists' actions are molded not by their own nature, good or bad, but by the system of which they are part. They have their own rules of the game, just as the gangsters have. The man who will not play the game according to those rules soon goes under. Thus the rare employer who does not want to profiteer unduly at the expense of wage-earners or farmers may get away for a while with violating the customs of industry through paying higher prices or being more friendly to labor unions. But he is fought by other manufacturers and he finds the bankers will not give him credit. When a depression comes, as come it will, he is powerless to compete with less brotherly rivals. He must cut his selling prices and therefore his costs, including wages and payments to farmers, or he will be driven out of business.

III. Can Capitalism Be Reformed?

Many people say, "The capitalist system has very ugly spots, but these can be wiped out." They believe that capitalism can be reformed. They are against any attempt to transfer control of credit, industry and trade from the hands of the capitalists to those of the people. They believe that production for private profit should be continued.

Are these people right? Or were we correct in saying a few pages back that the evils from which wage-earners and farmers suffer will continue as long as does the capitalist system?

To answer this we shall discuss important reforms that are being suggested or tried out. But let us recall, first, that the New Deal was not the first attempt to reform capitalism.

The "New Capitalism" of the 1920's

In the years from 1924 to 1929 many people thought that capitalism had been reformed. Even labor union officials talked of the "new capitalism" that was bringing union-management co-operation, increased wages, and the eight hour day. Big companies tooted their horns for welfare plans, including pension funds, employee stock ownership, and bonuses. Nearly everyone, including leading economists, thought that capitalism was over its worst troubles, that prosperity would get bigger and better every year, that every American would soon have a chicken in his pot and an auto in his garage.

Then like a thunderbolt came the crash of 1929, ushering in a regular old-fashioned depression. This depression was actually worse than any that had come before. Wage standards were swept away. Union insurance features went on the rocks, as did the welfare plans so praised by the capitalists. Millions who had been fooled into a sense of security found themselves without jobs, without homes, and dependent on charity. Millions of farmers as well as wage-earners were ruined. Capitalism had not been reformed after all.

The New Deal

Under Roosevelt the New Deal was set in motion. A new effort was made to reform capitalism through greatly increased government regulation.

Minimum Standards for Wage-Earners

Through the NRA and the codes, standards were set for wages and hours. Some of the most exploited workers did, at least for a while, get higher wages. But there are many weak spots in such a plan of reform. Enforcement proved very difficult. Wages of skilled workers were cut. Standards in the codes were put very low in order not to raise costs too much. At the same time employers raised prices to much more than cover their increased costs. As a result total profits went up faster than total wages. The increased prices meant that real wages, measured in buying power, were often worse than before. Unemployment was actually greater at the end of 1934 than a year before.

Attempts made in 1935 to win the 30-hour week and to raise wage standards were declared by business men impos-

sible because they would raise costs too high. Thus you see the nature of capitalism blocks reform through this approach. The drive for profits means that cost of production, including wages, must be kept down. When prices are raised to bring in profits, sales are limited. Production is limited to what can profitably be sold. Buying power lags behind, as before. Thus the mass of the people continue to be hard up and insecure, while our marvellous equipment for producing wealth is used only in part.

The Farm Program

The government aims to raise farm prices by cutting crop acreage. This approach is typical of capitalism and reveals its weakness. Capitalism plans not for plenty but for controlled poverty. Production is limited, instead of being increased to provide the food and clothing we want.

Relief and Social Insurance

The New Deal has not provided enough relief to make possible a decent standard of living. Government plans for old age pensions and unemployment insurance also fall far short of an American standard. This situation is natural under the capitalist system. The capitalists do not want to pay taxes to support big relief or social insurance plans. They want the wage-earners and farmers to bear the cost of old age and unemployment out of their already insufficient earnings. And the capitalists do not want relief wages or unemployment benefits to be high because that would tend to cut down their supply of cheap labor. The capitalists argue that a generous relief and insurance program would be bad for business. And they are powerful enough to prevent the reforms going very far.

Protecting Ownership Claims

The New Deal has poured billions of dollars into banks, railroads and other companies to keep them from going bankrupt. It has provided for the re-financing of farm mortgages. In these and other ways, it has prevented much wiping out of capital investment in bonds and stock that would otherwise have taken place.

While these measures may at the moment avoid suffering, they put a very heavy burden on the American people. For by saving these huge claims to unearned income, the government is in effect saying, "In the future, as well as the past,

a large part of the national income will go to Big Ownership in the form of interest, rent and profits." Buying power in the hands of the masses is being cut instead of increased.

Capitalism Is Declining

Other Socialist publications discuss these matters in more detail. But it should be clear by now that under capitalism there is bound to be a lag in buying power and that therefore production will be limited. Insofar as there is planning under capitalism, it will be planning for scarcity. That is what the fascist governments in Italy and Germany are attempting. Capitalism cannot plan for plenty. Only when production is for use instead of for profit, and when the capitalist rake-off is stopped, will planning for plenty be possible. That means setting up a new socialist society.

The capitalist system will, indeed, get into even worse difficulties than those from which it suffers today. Capitalism has now spread through most of the world, and the competition for world markets is becoming keener and keener. As a result war clouds again blacken the sky. Another world war will shake capitalism to its foundations. Even without war, new depressions are bound to come, and we can expect them to be even worse than this last one. The system of production for private profit has become a straight-jacket fettering mankind.

But there is a way out. Even within capitalism, changes are taking place that are preparing the way for socialism. What the socialist society will be like and how it may be built are subjects to be discussed in later pamphlets in this series.

Some readers may feel that talk of a new socialist order is visionary. But socialists are convinced that it is far more visionary and unreal to hope for comfort or security under capitalism. Whatever difficulties may have to be overcome, we must attempt the job if we are not to go through unspeakable sufferings. And since when have Americans been afraid of pioneering? Especially when we may win through to comfort, opportunity and freedom for all!

Questions for "The Siamese Twins—Profits and Poverty"

Lesson I—Section I—"What Causes Our Troubles?"

1. Are any members of your group suffering from the competition of cheaper labor? What can be done about this under the capitalist system?

2. The pamphlet says, "Safe working conditions are expensive when dollars, not human lives, are the standard of measurement." Do you think that dollars, not human lives, are the standard of measurement in industry today? Discuss.

3. What is a marketing co-operative? What are the limits on co-operative marketing under the capitalist system?

4. Have the members of the group who are wage-earners draw up a list of their grievances. Then take each grievance in turn and discuss to what extent the capitalist system is responsible.

5. Same as (4), but in reference to farmers.

6. Same as (4), but in reference to any, not farmers or wage-earners.

7. What is meant by capitalism or the capitalist system? Let members of the class give illustrations for each of the four characteristics listed in the text.

Lesson II—Section II—"Profits Limit Production"

8. The pamphlet says, "The bigger the profit the capitalist can take, the more buying power of the farmers and workers lags behind." Is this true? Discuss.

9. Do you think industry and trade should be run for the well-being of the masses or for the profit of the few? Discuss.

10. Read in turn each of the eight points listed under the section, "Summing Up." After reading each one, ask a member of the group to give an illustration; let students ask questions if the point is not clear; then ask whether the students will agree with the point.

11. Is it true that a business man must play the game according to the rules of the capitalist system or go under? Discuss.

Lesson III—Section III—"Can Capitalism Be Reformed?"

12. Why hasn't the New Deal done more to improve wages? Explain.

13. Can we expect to secure an adequate system of social insurance under the capitalist system? Explain.

14. "Capitalism plans not for plenty but for controlled poverty." Is this true? Discuss.

15. List recent reforms made by your state government or the national government. How much may each be expected to accomplish for the mass of the people?

16. To what extent has the New Deal struck at the basic evils of the capitalist system?

17. Summarize the most important points in the whole pamphlet.

Copies of this pamphlet can be obtained from the Socialist Party, 549 Randolph Street, Chicago, Ill., at the following rates, which include carriage charges:

1 copy	$ .10
12 copies	.50
25 copies	1.00
100 copies	3.00